INFLUENCE OF THE EAST AFRICAN COMMUNITY CUSTOMS UNION ON THE PERFORMANCE OF SELECTED FIRMS IN THE EDIBLE OILS INDUSTRY IN KENYA

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DECLARATION

This research project is my original work and has not been presented for a degree in this or any other university.

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This project has been submitted for examination with my approval as the university supervisor.

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DEDICATION

To my Dad and Mum: the Solid foundation you have built in me has brought me this far. Dad your words of continuous challenge and encouragement still linger in my mind. Mum you are the best.

To my Sisters; Liza, Terry, Christine and my Brother Trevor, for your continued support, understanding, inspiration and for being a great source of encouragement during my entire period of MBA study.

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ABBREVIATIONS

CET- COMMON EXTERNAL TARRIF

COMESA- COMMON MARKET FOR EASTERN AND SOUTHERN AFRICA

EABC- EAST AFRICAN BUSINESS COUNCIL

EAC- EAST AFRICAN COMMUNITY

EACCU- EAST AFRICAN COMMUNITY CUSTOMS UNION

EALA- EAST AFRICAN LEGISLATIVE ASSEMBLY

EPZ- EXPORT PROCESSING ZONES

FTA- FREE TRADE AREA

GDP- GROWTH DOMESTIC PRODUCT

KAM- KENYA ASSOCIATION MANUFACTURERS

SACU- SOUTH AFRICA CUSTOMS UNION

UNDP- UNITED NATIONS DEVELOPMENT PROGRAMME

NTB'S- NON TARIFF BARRIERS

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ABSTRACT

The entry into force of the protocol on the establishment of the East African Community Customs Union in January 2005 was a proof that the East African Community was working towards its long-term vision of establishing an East African Political Federation. The co-operation and unity of the East African people has been and still is strategic and important from the national, regional and continental point of view, leading to a widening and deepening regional integration in East Africa. The coming into force of the EACCU has raised the attractiveness and competitiveness' of the East African Market and has given operators within the region more confidence in making strategic and competitive decisions for the business development of the East African region in addition to making it a more attractive investment location.

However, many existing East African investors have had mixed feelings on the ongoing implementation of the EACCU especially on the influence it would have on their businesses. The manufacturing sector in Kenya, for example, through the Chairman of the Kenya Association of Manufacturers (KAM) expressed concerns on the effects that would arise from implementation of the EACCU and suggested the need for protection of the Kenyan companies from other East African investors. Some firms in the manufacturing industry were optimistic while others were pessimistic on the EACCU. It is due to these concerns that I saw the need to undertake this project in order to investigate whether the EACCU had positive or negative influence to the manufacturers in Kenya.

The objective of the study was to determine the influence of the EACCU on the performance of selected Edible oil firms in Kenya. It was a case study of two edible oil manufacturers who are involved in the exportation of edible oils to the East African region. From the study it was established that the EAC partner states should use harmonized information systems, have adequate documentation, educate and sensitize their customs officials on the EACCU regulations and eliminate Non-Tariff Barriers (NTB's) and hence avoid unnecessary delays at the border points. The overall indication shows that there are more benefits than challenges to the edible oil manufacturers in Kenya, which is a sign of a positive integration process of EAC.

CHAPTER ONE: INTRODUCTION

1.1 Background

African countries have pursued regional integration arrangements to accelerate their economic developments. Such arrangements hold promise for individual countries and the continent as a whole and they require economic analysis of costs and benefits to inform the expectations of what such arrangements can realistically achieve and to help them succeed. East Africa has hence pursued regional integration arrangement through the establishment of the East African Community. On the 30th November 1999, the new[1] East African community Treaty was signed by the EAC Partner states of Kenya, Tanzania and Uganda; it came into force on the 7th July 2000 upon ratification by the three partner states. The treaty states that 'the partner states undertake to establish among others……a Customs Union, a Common market, subsequently a monetary union and ultimately a political federation…..' (Article 5.2)

With a vision to create wealth, raise the living standards of all people of East Africa and enhance the international competitiveness of the region through increased production, trade and investments, the East African regional integration process was envisaged to be a progressive process. The movement from one level of economic integration to the other was to be through negotiated protocols. In line with this undertaking, the EAC Customs Union Protocol was signed on 2nd March 2004 ratified end December 2004 and came into force on 1st January 2005. It is only five years after the new EAC was established that the Customs Union protocol took effect. EAC disposed off the first immediate step of establishing a free trade area. EU integration serves as an example for the EAC integration process but though it took the EU decades to establish a customs union, EAC adopted a very tight schedule to implement the EAC Customs Union as a milestone towards a political federation.

1.1.1 Regional Integration

Regional integration refers to the process of creation or enlargement of regional arrangements of cooperation and the efforts of nations to connect or reconnect themselves

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[1] The first East African Community was between 1967 till 1977 when it collapsed due to divergent views in various aspects such as political, personal, economic issues.

to an organization spearheading the cooperation. It is an arrangement in which three or more countries with common interests come together to achieve those interests as opposed to the respective national interests. Regional integration involves political and economic aspects. The deepest level of integration is the economic union for which major economic policies are coordinated and the introduction of a monetary union made possible (Ngeno et al 2002). Many nations have made several attempts to form economic groupings, which have resulted into several forms of economic cooperation. The rationale for regional economic grouping can be said to be the need for larger markets for the goods and services of member countries, facilitation of a more efficient division of labour and more efficient economic development which leads to improvement of the standards of living of the people living in the member states (Kibera, 1998). Creating regional trading blocs has become an increasingly popular approach to reduce trade barriers (Odera, 2005).

There are six levels of regional economic integration with each succeeding level of integration involving a greater cooperation among member countries. These are: Preferential Trade Area, Free Trade Area (FTA), Customs Union, Common Market, Economic Union and a Political Union. (Ball,1996). The Free Trade Area (FTA) involves the elimination of tariffs on trade among member countries while retaining their original tariffs against the rest of the world. The Customs Union involves elimination of tariffs among member countries while establishing a Common External Tariff (CET). The Common Market is a customs union with free movement of factors of production (labour and capital). The Economic Union is a common market with a unified monetary and fiscal policy. Most national governments involved in an economic union, relinquish control over national economic policy to the group. For example, the European Union is an economic union and uses the Euro as the common currency. Under a Political Union, all economic policies are unified and member states cease to be separate entities. For example the United States of America, Canada and the former Soviet Union.

Regional integration leads to reallocation of economic activity, industrial activity increases in some countries as it falls in others. This changes intra-bloc income levels and generates losers and winners both of whom have to be handled carefully (Mullei, 2002).

1.1.2 Trade in East Africa

Regional integration in East Africa has been between the three East African countries of Kenya, Uganda and Tanzania and has been going on for many decades with varying trade patterns. The three East African countries have enjoyed a long history of co-operation under successive regional arrangement, such as the East African Common Services Organization (1961-1967) and the East African Community (1967-1977). The latter collapsed due to both internal and external factors, which were then not supportive of regional integration. The three countries have established diplomatic ties and have signed protocols of trade and investment through regional integration. The volume of trade between the EAC countries is still small taken together, intra-regional trade accounts for only 10% of total trade. The only significant flow is between Uganda and Kenya, the later exporting 15% of its goods, mainly finished consumer goods to the former.

Kenya is perceived as more developed than Uganda and Tanzania (UNDP report, 2005). Uganda, Kenya and Tanzania signed a treaty in 1999 to re-establish the East African Community after the original community collapsed in 1977 (EAC secretariat, 2004). After the coming into force of the EAC Customs Union protocol, a rule of asymmetry was applied with respect to goods originating from Kenya in such a way that goods from Kenya to either of the partner states, could attract internal tariffs on declining balance in the next five years while goods from the partner states to Kenya or among themselves will attract no tariff. After the initial five-year period, the community will become a fully-fledged customs union with goods from all member countries attracting no tariffs.

1.1.3 The East African Community

The East African Community is the regional intergovernmental organization of the Republics of Kenya, Uganda and Tanzania, with its Headquarters located in Arusha, Tanzania. The Heads of State of Kenya, Uganda and the United Republic of Tanzania signed the Treaty for the re-establishment of the East African Community on 30th November 1999. After ratification by the three national parliaments, the Treaty entered into force on July 7th 2000. The treaty states that the partner states undertake to establish among themselves a customs union, a common market, subsequently a monetary union and ultimately a political federation. (EAC Treaty, Article 5.2). In line with this, the EAC customs union protocol was signed on 2nd March 2004, ratified end of December 2004 and came into force on 1st January 2005.

1.1.4 East African Customs Union

A Customs Union provides an opportunity to optimize complementarities in trade, investment and production of the participating countries. The main objectives of the EACCU are; to Liberalize and promote regional trade, Enhance cross border and foreign investment, Promote efficiency and production within the Community through fair competition and competitive advantage, Promote economic development and diversification of industries. The protocol states that Partner States shall, upon coming into force of the EACCU, eliminate all internal tariffs and other charges of equivalent effect on trade among them, in accordance with the Provisions of Article 14 of the Protocol. (Article10). The EACCU established a 3-band Common External tariff (CET) of 0, 10 and 25% for raw materials, intermediate goods and finished products respectively, which has ultimately changed the structure of protection in Kenya (Kiringai, 2004) and will consequently affect Kenya's trade in the region and beyond.

1.1.5 The Edible Oils Industry in Kenya

Agriculture accounts for about 24% of Kenya's GDP with an estimated 75% of the population depending on it either directly or indirectly. Vegetable oil is one of the key sub sectors of agriculture with soybean and palm oil being the leading sources in production of vegetable oil in the world respectively. At present Kenya's domestic production of edible oils is estimated at 380,000 tones (EPZ report, 2006). The key players in the vegetable oil industry in Kenya comprise processors who extract the oil from the seeds and also produce oil cake for use in animal feeds and refiners who convert crude oils into a form suitable for human consumption. The private sectors are credited with the edible oils industry growth with the government playing the advisory role. The public sector players include the Ministry of Agriculture, Ministry of Trade and Industry, Ministry of Finance and other government agencies like Kenya Agricultural Research Institute and Kenya Revenue Authority. The processing and refining companies represent the private sector and related development partners including large-scale growers and small-scale farmers.

Currently there are about 30 vegetable oils refiners in the country. The exporting companies include Bidco Oil refineries, KAPA oil refiners, Palmac oil refiners, and Pwani oil refiners. These companies engage in the production of cooking oils, fats edible oils, copra oil and corn oil among other oil products. Some of these oil refiners are also involved in the growing of vegetable oil crops and in supporting small scale farmers in better farming methods to increase the vegetable oil production in Kenya. Kenya exports mainly to the East African Community and the COMESA[2] region as well as Europe and it is ranked as 15 worldwide in export of vegetable fats and oils and their fractions[3]

1.2 Research Problem

The first major stage in the integration process of the East African Community was the coming into force of the Customs Union on January 1, 2005. However, only one year afterwards, the business community ha begun to raise a lot of complaints regarding the Customs Union. There are mixed reactions to date, on the ongoing implementation of the EACCU. The edible oils industry being one of the top ten export earners of the Kenyan government (Centre for Business Information in Kenya (CBIK)-Export Promotion Council, 2006) is a very crucial contributor to the GDP of the Kenyan economy and therefore the need to ensure its growth and development both in Kenya and beyond the East African region is paramount.

With the various reactions ensuing from the ongoing implementation of the EACCU, there was need for a comprehensive study on the influences of the EACCU to sectors in the partner states so as to ensure corrective measures are taken on concerns that arose or promotion measures on areas that were beneficial to the EAC people. My study therefore

[2] Common Market for Eastern and Southern Africa
[3] According to data available at the Kenya Ministry of Trade and Industry.

focused on the influence of the EACCU on the performance of Kenyan firms in the edible oils industry as one of the sub-sectors in the manufacturing sector.

The Kenya Association of Manufacturers (KAM) chairman in the beginning of 2005 expressed the need for measures that were important to cushion the Kenyan companies because Kenya had/s been forced to forgo some of its benefits as the EACCU came into effect. (The Standard Business 1st January 2005). Uganda also demanded that Kenya should open up her market to duty free Ugandan goods while at the same time, lock certain Kenyan products from the Ugandan market. (The East African, January 10-16 2005).

This case study focused on two firms in the edible oils industry who raised various concerns in regard to its ongoing implementation especially with the example of the Tanzanian Government failing to comply with the rules of the Common External Tariff hence affecting edible oil manufactures in the other two East African states. The Tanzanian Finance Minister, Zakia Meghji while reading his 2006 budget suspended the zero tariffs on crude palm oil imports for one year and imposed a duty of 10% in a way to protect local farmers (The East African 11th July 2006). This recent decision by the Tanzania government to delay application of the Common External Tariff (CET) on crude oil as agreed with Kenya and Uganda under the customs union had provoked a bitter dispute between manufacturers and the oilseed industry. Discussions on this are still ongoing amongst the various stakeholders. It was therefore paramount for me to take an investigation on the performance of manufacturing firms in the edible oils industry before and after the EACCU (currently being implemented) so as to be able to determine the influence it has on the performance of the edible oil firms in Kenya.

Reactions in other industries of the economies of the three East African states are prevalent in other sectors, For example recent reactions from the motor vehicle industry indicate that since the entry into force of the EAC Customs Union, the established motor vehicle dealers face intense competition from imported second-hand vehicles, mainly from Japan and United Arab Emirates. These imports now account for about 70% of the market (Price Water House Coopers report, 2006). The Tanzanian motor vehicle dealers and importers of brand new cars face closure of business as the effects of the East African Customs Union that was launched, begins to bite. (The East African Weekly Newspaper, May 22-28th 2006).

Local manufacturers of consumer goods are affected, as duties on majority of fast moving consumer goods drops. Goods in this category include cooking oils, tinned foods and electrical goods (the Daily nation business weekly, January 2005). There is also a scramble for business in East Africa as major companies position themselves strategically to exploit the prevailing and emerging investment opportunities with a view to reaping maximum benefits.

Though the Customs Union is relatively new (2005 to 2006, only one year old) in East Africa, only a few studies on its influence have been done. A previous empirical study has been done to survey the effects of the East Africa Community Customs Union on the food and beverage industry (Odera, 2005). A comprehensive gender analysis of the implementation of the EACCU has also been done to indicate the opportunities and challenges that exist for the small-scale women traders in cross border trade (FES & CCGD, 2005[4]). The committee on Trade and Investment of the East African Legislative Assembly (EALA-CTI) has also been involved in EAC border visits as well as carried out public hearings as a general survey of the problems various businessmen/traders experience at the border points during cross border trade within the EAC states (The East African, 7-13 August 2006).

However there is no empirical study that has been done to find out the influence of the East Africa Customs Union on the performance of the Edible oils industry in Kenya. Therefore, to fill in that knowledge gap, this study sought to investigate the influence of the EACCU on the performance of the Edible oils industry before and after the customs union implementation. It was aimed at determining the costs and benefits of the customs union in East Africa and hence assists in designing appropriate mechanisms for improving the implementation of the EACCU. It sought to deliberate on the precepts for successful yet strategic business in East Africa after the EACCU.

[4] Friedrich Ebert Stiftung and Collaborative Center for Gender and Development

1.3 Research Objective

To determine the influence of the East African Community Customs Union on the performance of selected edible oil firms in Kenya.

1.4 Significance of the Study

The findings from this study will be important to the following groups of people:

To the Government of Kenya (Ministries of Trade and Industry, and the East African Cooperation) as it will be a basis for knowing the influence of the EACCU on economic development and will also form a basis for the government to do a comprehensive analysis on other sectors of the economy. This is especially so because in the previous East African Community, before its collapse in 1977, the Kenyan manufacturing sector was growing at 12% but dropped to 3.6% in 1980 due to the loss of sales volume to Tanzania and Uganda (Government of Kenya National Development Plan 1979-1983).

To The Kenya Revenue Authority and The East African Community Secretariat, it will increase the need for an efficient and effective system that will serve the East African people. It will also act as a source for carrying out surveys and education programmes for the customs officials at all border points. This will improve trade between the three East African states through better and favourable laws and policies that promote fair yet competitive trade.

To the manufacturers and businessmen on the need to take the most appropriate measures in trade such as rationalizing operations, right sizing, relocating or closure of operations, retrenching increasing capacity, and hence be in a position to give recommendations on strategies and policies to improve the implementation process. To KAM, to carry out sensitization meetings for their members on the policies and practises to advocate for.

To the academic community, it will be a basis for further research especially since its one of the first studies on the influence of the EACCU to an industry or sector.

CHAPTER TWO: LITERATURE REVIEW

"There is not a single example in modern history of a country successfully developing without trading and integrating with the global economy". Jeffrey Sachs (New York Times 24th April 2001 by Thomas Fried Man)

This section describes issues in regional economic integration and looks at Kenya's manufacturing sector before and after independence and measures the government took to develop the manufacturing sector of the economy. It also seeks to describe the concept of performance, indicators of performance and the factors that determine the overall performance of firms. It further seeks to relate the performance of firms with the regional integration as well as a brief history of the East African Community and its evolution to a customs union whose influence on performance is the main purpose of this study

2.1. The Concept of Regional Integration

The growth of regional trading blocs or regional integration agreements is one of the major international relations developments of recent years. Most industrial and developing countries in the world are members of one or more regional integration arrangements. Nearly sixty percent of world trade takes place within such agreements. (World-Bank,2000). Most regional trading blocs have one major objective of reducing barriers to trade between member countries. At their simplest they merely remove tariffs on intra-bloc trade in goods but many go beyond that to cover non-tariff barriers and to extend liberalization to trade and investment. At their deepest they have the objective of economic union and they involve the construction of a shared executive, judicial and legislative institution.

Any integration process may be based on one or more of the three recognized approaches to integration, namely, market, production, and development. Market integration is achieved through trade; liberalization by way of removal of tariff and non-tariff barriers to trade. This approach entails the creation of free trade area followed by a customs union, a common market and finally an economic community. The production integration emphasizes on coordination in planning and implementation of productive activities. The development approach, has elements of both market and production integration with an emphasis on the equitable development through compensatory and corrective initiatives. The degree of economic integration[5] can be categorized into six stages: the Preferential trading area, the Free Trade Area, the Customs Union, the Common Market, the economic union, and the political union (ECA report, 2004). Whereas most scholars recognize the six stages of economic integration above, Ball distinguishes five increasing levels of regional economic integration (FTA, Customs Union, Economic Union and Political Union) (Ball, 1996). Each succeeding level involves greater cooperation among the block.

2.1.1 Preferential Trade Area

A Preferential Trade Area is a trading bloc which gives preferential access to certain products from certain countries. This is done by reducing tariffs, but does not abolish them completely. It is an arrangement in which members apply lower tariffs to imports produced by other members than to imports produced by non members (ECA report, 2004). An example of a preferential trading area is one formed by the EU and the ACP countries that is the EU-ACP partnership agreement. It can be said to be the weakest form of economic integration.

2.1.2 The FTA (Free Trade Area)

The establishment of an FTA involves the commitment to eliminate internal barriers to trade among members while maintaining an independent policy against non-members. For example, the North America Free Trade area (NAFTA) comprising of Canada USA, and Mexico; Latin America free Trade area (LAFTA) which comprises of Argentina, Brazil, Bolivia, Chile, Colombia, Ecuador, Paraguay Peru Uruguay and Venezuela.

2.1.3 Customs Union

This level of integration involves the eliminations of tariffs among members' countries plus the establishment of Common External Tariff (CET) structure towards non-member

[5] http://en.wikipedia.org/wiki/Economic_integration (4th July 2006)

countries. The Customs Union may be defined as a merger of two or more customs territories into a single customs territory in which customs duties and other measures that restrict trade are eliminated for substantially all trade between the merged territories (COMESA, 2004). For example, the East Africa Customs Union (EACCU) and the Southern Africa Customs Union (SACU).

2.1.4 Common Market

In a Common Market, the same tariff structure as in the Customs Union is maintained but barriers to the movement of labour and capital are removed. A common market is a customs union with common policies on product regulation, and freedom of movement of all the four factors of production (goods, services, capital and labour). In addition to the customs union, in a common market the movement of the capital and the labour also becomes free. It is almost the same as a single market, but a single market focuses also on removing the physical, technical and fiscal barriers among the member states.

2.1.5 Economic Union

This is characterized by the harmonization of economic policy beyond that of the common market. An economic union requires further coordination of macro economic policies such as interest rates and exchange rates. It seeks to unify monetary and fiscal policies among its member states. A common currency, a permanently fixed exchange rate is a crucial aspect of the economic union. For example, the European Union.

2.1.6 The Political Union

The ultimate form of integration is the political union where countries agree to have a common policy on almost all sectors of the economy as well as political coordination in the areas of defence and foreign policy. For example Canada, The United States of America, this combined several states to become one country. Each of these levels requires some distinct level of commitment and degree of harmonization of policies on the part of member countries. However they have a common goal of seeking to benefit from trade creation, economies of scale and product differentiation, and efficiency gains, through policy coordination that result from implementation of regional integration.

Increased capacity to produce and trade manufactured goods is a cornerstone of regional economic community's integration efforts and one that should help boost Africa's unenviable share of world trade in manufacturers. Ultimately, Africa's regional integration efforts will be judged by the extent to which they help the continent pool its rich and rare resource endowments to enhance economic prosperity, alleviate poverty and improve its position in the world. The absence of industrial sophistication is one of Africa's greatest weaknesses (Economic Commission for Africa, 2004). African countries recognize that industrial expansion has a vital role in transforming their economies from overwhelming dependence on production and exports of primary commodities to technologically advanced manufacturing. Yet most countries have rudimentary, fragile manufacturing capacity. For example the EAC 's industrial objectives emphasize identification and elimination of constraints to industrial comparative advantage promotion of resource based small industries and agro- processing industries, promotion of balanced industrial growth, increased exports of industrial goods, and introduction of environment and quality standards.

2.2 Some Challenges Facing Regional Integration in Africa

One of the main challenges facing traders/exporters in Africa is cumbersome documentation procedures, inadequate or delayed export compensation, and inadequate foreign exchange and exchange rate fluctuations. (Keire,1993). Elimination of trade barriers and adoption of common investment policies do not necessarily lead to equitable distribution, Instead they support the tendency of investment to concentrate on the relatively more advanced countries. Another major challenge is the lack of commitment by the African leaders that manifest in the failure to honour agreements reached by the different regional integration schemes in the national plans. This plays down the value of collective agreements on protocols arrived at to accelerate trade and harmonize policies at sub regional levels. A major challenge that is also facing the EAC is the duplication of economic blocs that create the same objectives, for example, the EAC and SADC and COMESA in which some countries have dual membership (Odero 2005). Kenya and Uganda are in COMESA while Tanzania is in SADC and the three are all in EAC hence dual membership.

2.3 Some benefits of Regional integration in Africa

The benefits of regional integration are mainly gains from new trade opportunities, larger markets and increased competition (Venables 2000; World Bank 2000b). Integration raises returns on investments, facilitates larger investments and induces industries to relocate. Regional integration can commit government reforms, increase bargaining power, enhance cooperation and improve security. Regional integration is a means to improving welfare in participating countries and not as an end in itself.

2.4 History of the Kenyan Economy In Relation To the Manufacturing Sector

2.4.1 Pre independent Kenya

Kenya was a British colony that was charged with provision of raw materials to the British Empire. It was mainly agricultural driven with coffee, tea and sisal as the major GDP producers. (Christian Council of Kenya, 1955). The industrial and manufacturing sector was barely developed, though some large manufacturers like the East African Breweries (1922), British American Tobacco (1907) and Magadi soda (1911) were already in operation in Kenya. There was no protection given to the local industries since the economy was very small and too poor to gain from the policies that were in existence then which were being considered on an East African basis and not as Kenyan since the three countries of East Africa were under British rule. Therefore companies were started mostly in Kenya to cater for the entire east Africa region. Therefore Kenya benefited more from the wider market for goods and services compared to her neighbours Tanganyika and Uganda (Dahl 1956). Such benefits have gone a big way in negotiating for Kenya's position in the customs union today.

2.4.2 Post Independence

After independence the economy was still agriculture driven (Sessional paper 1. 1963). Most of the primary products were exported to Britain and Western Europe for processing. The government policy on manufacturing aimed at encouraging growth of local industries in order to displace imports. Institutions were put in place to achieve industrialization. For example Kenya Industrial Estates (KIE) to encourage small scale investments, industrial development bank (IDB) to provide development loans to invest in manufacturing sector and industrial and commercial development corporation (ICDC) to partner with other investors. The government took a very active role in production and marketing of goods and services through parastatals such as the Coffee Marketing Board, Pyrethrum Board of Kenya, and Tea Board of Kenya. Cooperative societies were also formed and supported by the government to encourage agribusiness.

2.5 An overview of The East African Community

The first East African Community (1967-1977) was the first regional integration arrangement fashioned and driven by the East African people themselves (EAC secretariat, 2004). At that time it was one of the most advanced arrangements in the world. The EAC responded to the needs of the people and yielded immense benefits to the East African society such as the direct and indirect employment to thousands of the East Africans. When the EAC collapsed there was a dismal economic performance that was experienced in the 1980s and 90s. The break up made each of these countries more vulnerable to the impacts of globalization (EAC secretariat, 2004).

After the demise of EAC in 1977, the East African countries negotiated and signed a mediation agreement in 1984, which had a provision for future pursuit of cooperation. This provision facilitated the Heads of state to meet and agreed on the revival of the East African cooperation. A series of actions led to the signing of the agreement (the permanent Tripartite Commission) for East African cooperation on 30th November 1993 and this led to the establishment of the EAC secretariat in Arusha on 14th march 1996. Within the period of the 1st development strategy (1997-2000), the three countries negotiated the treaty for the new EAC (EAC secretariat 2004). The Heads of State of Kenya, Uganda and the United Republic of Tanzania signed the Treaty for the re-establishment of the East African Community on 30th November 1999. After ratification by the three national parliaments, the

Treaty entered into force on July 7th 2000. The EAC was launched on January 15, 2001 (EAC secretariat 2002).

According to the EAC Treaty, people-centred, private-sector-led, market driven, internationally competitive and sustainable development in East Africa will be facilitated in different, but overlapping phases of integration, namely; the Customs Union to be established as the entry point to the Community, A Common Market, A Monetary Union, and ultimately; a Political Federation of the East Africa States.

2.5.1 The East African Community Customs Union (EACCU)

The first phase of integration, which is the East African Customs Union protocol, was signed on 2nd March 2004 (EAC Secretariat 2004) and came into effect from 1st January 2005 and implementation is on going. The EACCU comprises of 44 articles that fall under various groups; first, the interpretations, gives all the interpretations of all technical terms used in the protocol. Secondly, the Establishment of the EACCU which outlines the provisions, objectives and scope of the EACCU such as the customs administrations, trade liberalization, trade related aspects, export promotion schemes, special economic zones, exemption regimes and general provisions.

Thirdly, the transitional provisions on the elimination of the internal tariffs which states that the establishment of the EACCU shall be progressive in the course of transition period of five years from the coming into force of the protocol. Fourthly, the common external tariff (CET) that establishes a three band CET with a minimum rate of 0% for raw materials, 10% for intermediate goods and 25% on finished goods.

These sections of the protocol give a basis for trade within the EAC bloc and how it is guided and regulated and hence the discussions on the performance of the edible oil firms will largely be drawn from the EACCU.

2.6 The Concept of Performance

Collins compact dictionary (1999) defines Performance as 'to fulfil'. Performance is how well one can fulfil the requirements of their jobs (Kariuki, 2005). Performance is critical for excellence and survival of a company. Performance is the process by which executives; managers and supervisors work to align employee performance with the firm's goals (Ivancevich, 2001). Performance is also seen in terms of how well the objectives of a particular task is met, looking at the quality of one's work or looking at the quality of the end product. In understanding the concept of performance, it is important to be more concerned with the amount of effort that has been put in an activity and the ability that might have been used (Kariuki (2005).

Indeed companies listed in the Nairobi Stock Exchange (NSE) are expected to meet certain minimum performance standards such as the levels of profitability and total capacity employed. Besides, quotation on the stock exchange enables them not only prestige but also raise capital through sales of shares to the public (NSE, 2005). Corporate performance research is active in terms of empirical studies but face criticisms regarding its limited theoretical foundation and it is narrow focused. The works collected in Harvard Business Review in measuring corporate performance, including the three ground breaking articles on the balanced score card offer managers' practical guidance for measuring their intangible assets (customer relationships, internal business process and employee learning) and aligning corporate strategy accordingly. The balanced scorecard offers the most complete purpose-built application for managing business performance in today's complex and rapidly changing business environment. Unlike business intelligence, score carding, and desktop tools, it combines performance metrics, initiative management, budgeting and planning, and reporting in a single, structured environment (Stollsteimert 2000).

The modern way of measuring a company performance is by benchmarking against the performance of its peers in the same industry. Once reserved for larger companies who could afford it, today, small and mid size manufacturers are benchmarking their positions in the marketplace as well. The Internet has enabled a more level playing field as manufactures enter the information economy. With the analysis of specific financial data, benchmarking enables manufactures to understand how their performance rates within their industry segment and identifies opportunities for improvement.

The ultimate goal of any organization is to maximize on profits while remaining cost effective. Organizations are geared towards gaining competitive advantage in the industry they are operating in. Highly successful business groups are very aggressive through their customer driven and market driven strategies in creating big markets for their new product ranges and services (Aravindan, 1997). Therefore, performance in firms may be attributed to the overall organizational competitiveness in an industry.

A company's performance can also be measured using profitability performance ratios. These ratios measure how effectively a firm is using its various resources to achieve profits. Management's performance is often measured by a firm's profitability ratio. Three of the most important ratios used are earnings per share, returns on sales, and return on equity. Earnings per share are very important as it helps stimulate growth in the firm and pay for such things as stockholder dividends. Return on sales is also very important as it helps the firm to measure its returns on sales hence help the company to compete against generating income from the sales they achieve (Nickels. 2005)

However profitability performance may not be the only way to measure the overall performance of a firm. Competitive advantage[6] is at the heart of a firm's performance in competitive markets. Competition is at the core of the success or failure of firms and determines the appropriateness of firms' activities that can contribute to its performance such as innovations, a cohesive culture, or good implementation (Porter, 1998). Competitive strategy is the search for a favourable competitive position in an industry, the fundamental arena in which competition occurs. Competitive strategy aims to establish a profitable and sustainable position against the forces that determine industry competition. The ultimate aim of competitive strategy is to cope with and ideally to change rules of competition in a firms favour (Porter, 1998).

[6] A firm is said to possess competitive advantage over its rivals when it sustains profits that exceed the average for its industry.

In any industry whether it's domestic or international, or produces a service or a product, the rules of competition are embodied in five competitive forces: the entry of new competitors, the bargaining power of suppliers, the threat of substitutes, the bargaining power of buyers, and the rivalry among the existing competitors (Porter 1998). The collective strength of these five competitive forces determine the ability of firms in an industry to earn on average, rates of return on investment in excess of the cost capital (Porter, 1998). These five forces determine the industry profitability because they influence the prices, costs and required investments of firms in an industry, the elements of return on investment. Buyer power influences the prices that firms can charge, as well as the threat of substitution. The power of buyers can also influence the cost and investment because powerful buyers demand costly service. The bargaining power of suppliers determines the costs of raw materials and other inputs. The intensity of rivalry influences prices as well as the costs of competing in areas such as plant, product development, advertising and sales force. The threat of entry places a limit on prices and shapes the investment required to deter entrants (Porter, 1998)

Other ways in which performance can be measured include the success factors of the organization. Some of the fundamental aspects to analyze and determine why some firms may win in the market while others loose include the vision and strategy of the firms, their assumptions about the future and the unique resources they possess (Rothschild, 1984) within the vision and strategy of a firm, Every business that competes in the global market must be able to have a vision and a strategy that competes in the global market. A vision is where the company wants to be. While the strategy is what the company uses in order to achieve its objectives. For example the vision of Alfred Sloane who was the leader that made the General motors into the giant it is today due to his vision. His vision and strategy focused on providing the public with the stylistic, quality automobiles with numerous changes made annually at all price points. He established each division in each price and status segment that could run their won show and yet capitalize on the volume advantages of mass production. He encouraged competition among divisions and decentralized decision making. His strategy is still used to date despite the fierce competition in the industry. (Rothschild, 1989)

Under the different assumption, a firm may assume how and at what rate the market may develop, and also assume that there may be no or minimal changes in technology or that there is need to change to the most modern technology to be more competitive in service. A firm may also make an assumptions in areas of supplies which may be caused by the national economies for example some companies may not be aggressive enough because they assume the economy will remain as it is for another period of say ten years. Other firms may have macro environmental assumptions like lack of growth by the national economy, or instability of the government and this may determine the progress of the business. In regard to resources, a firm may have unique marketing skills, design and product differences, sustaining power, production, financial differences, managerial and workforce talents (Rothschild 1984). All these may be used to categorize how performance of an organization may be used within an industry.

For the purposes of this study, the concept of performance shall focus on the overall firm performance these include the sales of the firm, the customs official's efficiency in handling exports/imports, effects on market share and personal opinions of respondents on the influence of the EACCU on the performance of the respective firms.

2.7 Regional Economic Integration and Performance of Firms

In accordance with the standard trade theory, integration whatever its depth improves welfare in respective countries provided such an arrangement creates trade, minimizes trade diversion, or the trade so created exceeds any trade diversion that arises from integration (Mullei 2002). The effects of regional economic integration are either static or dynamic and arise from re-allocation of resources that follow changes that are driven by increased competition and increased investment and growth. Integration encourages growth by promoting stable national macroeconomic policies and rapid accumulation of human and physical capital. Whether the static outcomes of integration are beneficial to member countries depends on the balance between trade creation or shifting of the production of goods from less efficient to more efficient members and trade diversion or shifting of production from an efficient member to a less efficient member. Trade diversion and creation tend to follow tariff changes associated with a customs union. While trade creation represents a move towards a freer trade and greater efficiency that improves welfare, trade diversion reduced efficiency and welfare (Mullei 2002).

The dynamic effects of integration are gradual and longer lasting and include greater opportunities for the realization of scale of economies, increased efficiency enhancing intra-union competition, capital formation through reduction in trade barriers, technology transfers and diffusion, increased marginal product of capital, the side effects of export growth and the higher likelihood of influencing terms of trade faced by the union members through group actions. These dynamic effects are more efficacious in their impact on economic growth and welfare and other stronger arguments for regional integration (Ngeno et al 2002).

The benefits of regional integration include scale effects and competition, improved terms of trade and its effects on foreign direct investment, location, and trade effects. For instance intense competition within a bloc has potential of inducing non-member countries to reduce prices of exports to the bloc and improve terms of trade within the bloc. Regional integration has costs associated with it such as the loss of national sovereignty, creation of internal tensions and resentments where unfair distribution of integration benefits and costs results. Whether regional integration improves or worsens the intra regional trade depends on the characteristics of the member countries and the design and style of the integration scheme (Mullei 2002). Africa has been a pioneer of regional integration. From the SACU established in 1910, through the historic Pan African Congresses to the first regional federations, the African trade integration has included numerous arrangements at regional and sub regional levels; the Lagos plan of action followed by the 1991 Abuja treaty, established the AEC[7] with sub regional economic communities envisaged as the building blocks for the AEC[8] (Yang &Gupta 2005).

Regional integration in East Africa has a long history as Kenya Uganda and Tanzania have enjoyed close commercial, industrial, cultural and historic ties. (Lyakurwa et al 2002). Initial

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[7] African Economic Community
[8] Most African RTAs have yet to be recognized by the WTO (United Nations economic commission for Africa (ECA), 2004). For those that have been notified to the WTO, they were mostly reported under the enabling clause. No WTO members have requested examination of any of these RTAs for consistency with WTO rules.

integration was evident as early as 1919(Ngeno et al 2002) prior to 1960 East African Regionalism included the Kenya Uganda Railway in 1897-1901, the establishment of the customs collection center in 1900, and the formation of the East African Currency Board in 1909. The court of Appeal for Eastern Africa, 1909, a customs union in 1919, the East Africa Governors conference in 1936, the East African Tax Board and the Joint Economic Council 1940. In the post 1960 period, the East African Common Services Organizations Agreements that were in force over the 1961-1966 periods. An East African Treaty was signed in 1967, establishing the East African High Commission, the East African Common Services Organization and the East African Community (Lyakurwa et al 2002). In 1997 a summit of the heads of state from East Africa launched the first East African Development strategy, which recognized the importance of market mechanisms, the private sector, and the civil society in any future cooperation. It identified areas for regional cooperation such as political, economic, social, cultural research and technology defence and security, legal and judicial affairs, finance and trade.

Integration generates positive trade and location effects. This is an outcome of changing relative prices that follow a lowering of tariffs and imposition of a common external tariff within member countries. Imports from member countries become cheaper. When the prices are accompanied by shifts in patterns of demand and output levels, the outcome has greater potential of generating trade diversion rather than creation. Imports from non-member countries tend to fall without any compensating increase from intra bloc sources.
As regional integration affects the overall trade performance of member countries, it also has an effect on the performance of any industry within the member states. Because integration leads to economic activity reallocation, industrial/ manufacturing activity increase in some countries as it falls in others. This therefore affects intra bloc income levels and generates losers and winners both of whom have to be handled carefully. It extends to the levels of the economy and hence has an impact on the overall performance of the firm and/ or industry specific as well as the countries economy. For instance some local firms in the member countries will have protection against other competitors in the global arena as it improves its performance on its finances as well as on the products so as to remain competitive in the regional and global markets. Therefore the performance of any firm or industry is greatly affected by regional integration both positively and negatively.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Research Design

A case study was adopted for this study as the targeted edible oil firms had certain variations and were diverse in their performance in relation to the customs union protocol. The firms selected in the case were studied both before and after the customs union was established hence the case is a longitudinal study. The case study allowed in-depth investigation to determine the exact influence of the customs union

3.2 The Population of the Study

Being a case study, the population comprised of only two large edible oil firms in Kenya, who are listed and classified as Edible oil manufacturers in the Kenya Association of Manufacturers (KAM) directory. The two firms were selected through the use of convenience sampling. This was done by sending out requests to four firms and only two were willing to be studied. These two firms are engaged in the export business and were well informed on export and import procedures.

3.3 Data Collection

Data was collected using a semi-structured questionnaire (see appendix) and was sent by email and hand delivered to the respondents. The questionnaires were self administered by the respondent. The respondents were senior managers who are involved in the policy making process (the Chief Executive officers, the Executive Director, the General Manager) and the middle level managers who are involved in the policy implementers (the sales and marketing managers, the strategic corporate managers and the export managers).

The questionnaire contained the three sections as follows: the first section contained the Company demographics such as the company name, title of respondent, nature of ownership, number of employees. The second section was seeking to unveil the performance of the company before and after the entry into force of the customs union.

Section three looked at the levels of satisfaction and challenges the company faced during the implementation of the customs union as well as recommendations from the respondents.

3.4 Data Analysis

Content/Qualitative analysis was used to determine the influence of the East Africa Customs union on the performance of the edible oil firms in Kenya. Content analysis is any technique for making inferences by objectively and systematically identifying specified characteristics of messages.

The table below shows how the variables in the study have been operationalised.

Table 3.1: Operationalisation of Study Variables.

Operationalisation	Question items
Total sales in KShs	What were the total yearly sales in Kenya shillings from Uganda and Tanzania respectively?
Total sales volumes in tones	What were the export volumes from Uganda and Tanzania respectively?
Market share	Is there increased competition in the industry from imports from Uganda and Tanzania respectively
Customs efficiency and effectiveness	What is the perception of the performance of the firms in relation to customs officials at border points and speed at borders
Respondents opinions on performance	What are the implications of article 5, 11 and 13 to the firms performance of the firm
Challenges and benefits of EACCU to the firm	What are the benefits and challenges to the firms' performance since implementation of the EACCU?

CHAPTER FOUR: DATA ANALYSIS AND FINDINGS

4.1 Introduction

The purpose of this study was to determine the influence of the East African Community Customs Union on the performance of selected firms in the Edible oils industry in Kenya. A case study of two companies was adopted and both companies returned the questionnaires. The results of the investigation are presented below.

4.2 Company demographics

This section presents the characteristics of the companies in the study.

The findings of the study show that under the Year of establishment: one respondent company was established in the year 1977 while the other was established in 1985. This show the companies have been in operation for more than 20 years in Kenya. In regard to the Nature of ownership, one respondent company is locally owned while the other is foreign. In regard to the Branches/affiliates that are based outside Kenya, one respondent company has affiliates outside Kenya while the other does not. On the question of the Number of employees, according to the categories of sizes given the ranges were between 1-200 people which were classified as small, 200-400 medium and 400 and above as large, therefore from the responses, one respondent company is medium sized while the other is large. In regard to the Number of edible oils brands; brands listed by each of the company's shows that they manufactured not less than ten edible oil brands. While in response to the Brands exported: the respondent companies indicated that the locally owned company had only one brand to export while the other was exporting three brands.

4.3 Performance of the company

This section sought to get direct export sales volumes and sales in Kenya shillings from the respondent company's data to enable the assessment of the performance of the firm in terms of the sales revenue and exports to the two East African states. However, due to the confidentiality of sales data from private companies, this information was withheld and hence could not give a quantitative performance analysis. An estimate of the sales volumes was given by each respondent company to help establish if there was any performance change of the company. In addition to the quantitative information this section sought to get, there was also need to get qualitative performance. This was given through checking on improved market share where one respondent company agreed that there was a fair improvement as the EACCU had given it a larger market to cover while the other said there was a good improvement.

4.4 Effects of the EACCU to the firm's performance

This section covered a comprehensive qualitative analysis of the company's performance following the EACCU. The ranking scale was used to get the following results. In regard to the Understanding of the EACCU: one respondent company (foreign owned) gave a brief explanation of EACCU as simply as "the creation of *an expanded market*" for their products while the other gave a detailed explanation of the EACCU as the third stage of economic integration after PTA and FTA followed by the common market and argued that real economic integration would commence when the EACCU was fully operational after the completion of the transitional process. This indicates that the respondent companies were fully informed of the existence of the EACCU as well as the benefits and challenges that accrue from the customs union. When asked about what they would perceive as the effects of EACCU on the performance of their firms; both respondent companies' gave a node on better performance after the customs union.

In regard to the question on enhanced cross border trade, efficiency at the customs offices, clearance costs and increase speed at the border points both respondent companies were unhappy with the services offered as they complained of unavailability of documentation leading businessmen to use old documents or COMESA related documents such as the certificates of origin, this in turn has led to delays at the borders leading to loss of business by the companies. The respondent companies were also unhappy with the introduction of a business visa worth 100USD by Tanzanian authorities for entry by businessmen from the other two partner states which is against the EACCU and integration process in general. The companies also stated the lack of knowledge by the customs officials on the new regulations introduced by the EACCU this is to mean that there is lack of harmonized interpretation on customs regulations which is also a hindrance to improved business.

In regard to the issues on increased sales volumes, profits and increased market share, both respondent companies gave divergent views. Both company's were optimistic on all the areas mentioned but with varying degrees. Both were agreeable to increase in sales volumes, profits as well as the market share due to the enlargement of the "domestic" markets which covers an area of 1.8 million Kilometres squared with more than 88 million people which has led to generation of larger sales due to larger markets, use the opportunities to maximize on economies of scale for larger/mass production. This has also been due to reduced and elimination of internal tariffs.

In response to the effects on Article 13 of the protocol about the non-tariff barriers, the respondents were very unhappy with the various Non tariff barriers that are in existence. They stated some of the NTB's as the lack of relevant and inadequate documentation for clearance at the border points, bad infrastructures such as bad roads and communication networks while transporting goods from one country to the other, lack of well informed customs officials at the border points, the business visa introduced by the Tanzanian authorities for entry into Tanzania. In regard to Article 5 of the protocol the partner states did not exchange information relating to customs and trade and that there was no harmonized system to facilitate the sharing of customs and trade information. This therefore led to slow services at border points and forms of demurrage.

In response to the main differences between the period before and the period after the implementation of the EACCU, the effect of the performance of the company and the benefits and challenges the company is experiencing since the implementation, the company's had various views. Despite experiencing benefits such as increase in sales and increase in markets for their goods, the company's faced a threat on their goods by the imports into the Kenyan market from the Ugandan market which had been very minimal before the implementation of EACCU. This meant that the Kenyan firms have to increase their expenditures of new investments to improve on productivity so as to match the expectations of external and internal markets, that is, to increase competitiveness. On respondent company was also very agitated by the issue since his company has had to reduce prices owing to increased competition.

From the study, the respondent companies recommended the need for the partner states to look at the long term benefits and avoid the short term in the implementation process as they were reacting to the Tanzanian government of going against the EACCU. They also recommended the need to end all non tariff barriers as they have greatly impeded business. They also recommended the need to have informed and educated customs officials at all border points as well as use computerization process to increase efficiency at the borders giving the example of the EU. The issue of electricity/ power generation arose citing the need for the three partner states to come up with an effective way of making a cost effective power supply for the region. In general the respondents were eager to see the success of the EACCU as this meant better business for their companies.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary and Conclusion

The research findings are briefly discussed in terms of the research objective, which was to determine the influence that the EACCU has on the performance of the Kenyan edible oils industry.

These results indicate that the establishment of the EACCU has provisions, opportunities and challenges that have an impact to business in the East African region. The respondent companies were engaged in exports to the East Africa region, were fully aware of the EACCU and were already tapping on the meaningful benefits that came along with the EACCU. The results indicate that the EACCU has given major benefits to the edible oil manufacturers such as in the increase in sales volumes, profits and market share. Despite the valuable benefits accruing from the EACCU, the challenges are also giving Kenyan edible oil manufacturers a run for their money due to the increase in competition and loss of markets in their own country such as loss of market in western province of Kenya to the Ugandan manufacturers.

From the findings of this study, the Kenyan companies must maximize on efficiency and effectiveness, pricing as well as marketing and promotions for them to remain competitive and relevant to the Kenyan consumer. This is due to the increased competition emanating from the Ugandan edible oil imports into Kenya. It is also evident that there is need for the EAC partner states to use harmonized systems, adequate documentation, educate their customs officials on the EACCU regulations and hence avoid unnecessary delays at the border points. The study also indicates that there is great need to ensure adequate communication/passing of information amongst all the authorities in the partner states. The need to eliminate various non tariff barriers is paramount as this causes losses in business.

In conclusion, the EACCU has given the Kenyan edible oil manufacturers a chance to develop new markets, produce new products, use the opportunities for mass production and hence experience improved economies of scale. The EACCU has also created a high level of competition between the companies in Kenya as well as those in the partner states. This is beneficial to the consumers and the entire East African economy. Although the edible oil manufacturers will face intense competition from the intra regional trade, the EACCU has and will continue eased competition from other edible oil manufacturers outside the EAC region due to CET. In turn this will give the EAC edible oil manufacturers a good ground for international competition[9] . This therefore gives EAC manufacturers in general a brighter future for expansion of business in the region and beyond both in terms of business turnover and the quality of products. There is an increased industrial investment response to the new opportunities created by the EACCU dispensation since some of the companies have already begun establishing branches in the other partner states.

From the implementation of the EACCU, Every business must be able to look at the costs and the benefits accruing from it. The edible oil manufacturers for example are already experiencing numerous benefits from the EACCU but will also have to do absorb costs such as expenditures on new investments to improve productivity, reduced prices on products, and marketing and promotion expenditures amongst others. All in all, it can be said that for any company or business in a competitive market that is planning to flourish, must be able to deal with the opportunities and the challenges in the market.

The benefits of the EACCU to the edible oil manufacturers are more than the challenges, which is a good indication of the influence that the EACCU has on the Kenyan Company's. Despite the ensuing challenges, the EACCU is an adequate entry point into deeper regional integration and also an important step for realizing the vision of an enhanced standard of living and improved welfare for the whole population in East Africa.

5.2 Recommendations for Policy and Practice

This study reveals that the establishment of the East African Community and the EACCU was a great step towards economic and social development for the East African people. It is

[9] "Regional integration can help industries develop efficiently. Neighbouring countries can also provide an outlet for excess capacity and experience for tackling larger overseas markets" (World Bank, 1989)

therefore an effective tool to improve the living standards of the East African people. From this study, I recommend the following towards policies and practices:

There is need to eliminate all existing Non Tariff Barriers as stipulated in article 13 of the EACCU which are a major hindrance to good business in East Africa. This can be done, for example, by ensuring all relevant documents are available to the businessmen at the border points such as by introducing the EAC certificate of origin to facilitate improved trade.

The EAC secretariat should work in consultation with the business community as well as other stakeholders such as manufacturers and the national government bodies such as Revenue authorities, Ministries of Trade and Industry in the partner states to modify the EAC competition policy that will promote fair competition amongst companies from the partner states and hence to give the East African people better quality products and services.

There is need to educate the customs officials at all the border points to enable them to exercise the policies within the EACCU effectively and efficiently. Partner states should adopt a common educational programme for educating all the customs officials. EAC secretariat should also increase sensitisation-training sessions for their officials as well as the partners' states revenue authorities' officials to ensure a harmonized informative system is in place to facilitate the sharing of trade information. The EAC partner states should work on the computerization of procedures and processes which are vital in faster cross border services to ensure faster efficient and more effective services.

The partner states should follow the EACCU since they were all participants in its creation and because they are signatories to its existence. The three partners have a vital role to play to ensure that the EACCU becomes a reality. This is especially because of the recent defiance by the Tanzanian government to introduce a 10% import duty on crude palm oil during the budget day speech, which leads having an uncompetitive price tag on the finished products. This therefore goes against the already agreed upon CET. Partner states need to keep constant consultation before making any changes. EAC should therefore work to ensure that all the partner states are complying with the agreement.

5.3 Limitations of the Study

The data collected was not fully responsive as some companies held certain information as confidential and therefore the respondents could not disclose their exact sales levels/figures hence some of the questions were omitted. It is also difficult to determine whether the targeted respondents who were the senior management and middle level managers are the ones who filled in the questionnaire hence may have some level of bias. The study However, these limitations did not affect the final qualitative analysis of the study.

5.4 Suggestions for Future Research

The findings in this research are limited to firms in the Edible oil industry and the findings cannot be generalized to other manufacturing sectors. There is therefore a need to replicate this study in other sectors of the manufacturing sector as well as different areas of the economy.

Future research should also focus on the influence of the EACCU to other sectors in the economy in the three partner states and not only in one partner state as was the case in this study.

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APPENDIX 1: LETTER OF INTRODUCTION

Date …

Dear Respondent,

RE: FILLING OF QUESTIONNAIRE

I am a student at the University of Nairobi currently undertaking an MBA degree in International Business.

Please find attached a questionnaire for you to fill.

This questionnaire is designed to gather information/data that will enable me to determine the influence of the East African Community Customs Union on the performance of firms that are in the Edible oils industry, of which your company is enlisted.

The information collected will be used for academic purposes only to write an MBA International Business project, which is a requirement for the fulfillment of the Master of Business Administration Degree.

The information you will give will be treated in total confidence and the results of the study will be available to you upon your request.

Your cooperation in this exercise will be highly appreciated.

Thanking you in advance.

Yours Sincerely,

Sofia Njagi

Tel. No. 0722-787283 or 3748338/9

Fax: 3746992

Email: sophie_kageni@yahoo.com

APPENDIX 2: QUESTIONNAIRE

For **Senior Management Staff/the Policy Makers** (The Chief Executive Officer, the Executive Director, Senior Corporate Manager, and the General Manager) **and the Middle Level managers** (the Sales and marketing managers, export managers, the strategic manager's corporate managers)

Kindly answer the following questions by giving all the details in the spaces provided.

Section A: Company Demographics

1. Name of the company

   ……………………………………………………………………………………………
   ……………………………………………………………………………………………

2. Year of Establishment ……………………………………………………………………

3. Position of respondent in the company

   ……………………………………………………………………………………………
   ……………………………………………………………………………………………

4. No. of years the respondent has worked for the company

   ……………………………………………………………………………………………
   ……………………………………………………………………………………………

5. What is the nature of ownership: tick appropriately

   Local [ ]
   Foreign [ ]
   Subsidiary [ ]
   Other (specify) [ ]

6. Does your company have branches /affiliates outside Kenya

   Yes [ ]   No [ ]

If yes where else: name all other countries

…………………………………………………………………………………………………

…………………………………………………………………………………………………

…………………………………………………………………………………………………

…………………………………………………………………………………………………

7. What's the total number of employees in your company?

…………………………………………………………………………………………………

…………………………………………………………………………………………………

8. Indicate by listing all the number of the Edible oil brands your company manufacturers

…………………………………………………………………………………………………

…………………………………………………………………………………………………

…………………………………………………………………………………………………

…………………………………………………………………………………………………

9. Name the Edible oil brands listed above that your company exports to EAC

Edible oil brand name	Exports to Uganda	Exports to Tanzania

Section B:

The performance of the company

1. What were your total yearly sales in Kenya Shillings and total export volumes from your exports to Uganda?

Year	Sales in Kshs	Sales volumes in Tones
2001		
2002		
2003		
2004		
2005		
2006		
Total		

2. What were your total yearly sales in Kenya shillings and total export volumes from your exports to Tanzania?

Year	Sales in Kshs	Sales volumes in Tones
2001		
2002		
2003		
2004		
2005		
2006		
Total		

3. How much corporate taxes and duty did your company pay in the period 2001-to date? For exports to Uganda and Tanzania only?

Year	Corporate tax	Import duty	Excise duty
2001			
2002			
2003			
2004			
2005			
2006			
Totals			

Please indicate any other duties you pay

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4. How would you rate the improvement of your market share after the year 2005?
    1. poor
    2. Good
    3. Fair
    4. Best

Section C: Effects of East African Community Customs Union to the firm's performance?

1. What is your understanding of the EAC Customs Union?

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2. What do you perceive the East African Community Customs Union to have on the performance of your organization (tick appropriately and note that rating scale is as from 1-4 where 1 is the best improvement while 4 is the least improvement on performance):

	1	2	3	4
a. Promote regional trade in EAC	[ ]	[ ]	[ ]	[ ]
b. Enhance cross border trade	[ ]	[ ]	[ ]	[ ]
c. Increased sales volumes	[ ]	[ ]	[ ]	[ ]
d. Increased profits/revenues	[ ]	[ ]	[ ]	[ ]
e. Increased speed at borders	[ ]	[ ]	[ ]	[ ]
f. Efficiency at customs offices	[ ]	[ ]	[ ]	[ ]
g. Changes in clearance costs	[ ]	[ ]	[ ]	[ ]
h. Increased market share in EAC	[ ]	[ ]	[ ]	[ ]

"According to article 5 of the protocol; the partner states shall exchange information on matters relating to customs and trade and in particular; the prevention, investigation and suppression of customs offences and the operation of a harmonized information system to facilitate the sharing of customs and trade information.

3. Do you think this has been done to assist exporters in the export business? (please tick appropriately) Yes [ ] No [ ]

   If yes how?

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   If No, what do you think needs to be done?

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"According to Article 11, of the Customs Union protocol.

"The partner states agree that upon the coming into force of the protocol and for the purpose of the transition into a customs union:

1) Goods to and from the Republic of Uganda and the United republic of Tanzania shall be duty free; and
2) Goods from the Republic of Uganda and the United Republic of Tanzania into the Republic of Kenya shall be duty free; and
3) Goods from the Republic of Kenya into the Republic of Uganda and the United Republic of Tanzania shall be categorized as follows:
   a. Category A goods shall be eligible for immediate duty free treatment; and
   b. Category B goods, which shall be eligible for gradual tariff reduction
4) Category B goods from the Republic of Kenya into the Republic of Uganda shall have a phase out tariff reduction period of five years for all products as follows;

a) 10% during the fist year

b) 8%during the second year

c) 6% during the third year

d) 4% during the fourth year

e) 2% during the fifth year

f) 0% thereafter,"

4. Where do your company's export goods fall in category A or B?

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5. What are the implications from this article to your firm and to what extent has this affected your firm's revenues?

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According to Article 13 of the protocol; " Except as may be provided for or permitted by this protocol, each of the partner states agrees to remove, with immediate effect, all the existing non- tariff barriers to the importation into their respective territories of goods originating in the other partner states and thereafter, not to impose any new non-tariff barriers."

6. Are there any non tariffs barriers that you experience while export to Uganda and Tanzania? Yes [ ]   No [ ]

Explain with examples

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7. Explain what you have observed as the main differences between the period before the customs union implementation and after the customs union came into force

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8. In your opinion, has the EACCU led to better performance of your company?

Yes [ ] No [ ]

Explain

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9. What are the benefits and challenges your firm has faced since the coming into force of the EAC customs union?

Benefits

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Challenges

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10. Are you aware of any edible oils imports from Uganda and Tanzania into Kenya?

Yes [ ] No [ ]

If yes, name the brands and explain the effects

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11. In your opinion, is there increased competition in the edible oils industry in Kenya due to the customs union implementation from the other companies in EAC?

    Yes [ ]   No [ ]

    Explain

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12. Has the EACCU made the importation of raw materials and other inputs used in the production of edible oils easier? Explain.

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13. In regard to all the above challenges and benefits accrued from the implementation of the customs union, what are your recommendations?

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APPENDIX 3: LIST OF COMPANIES LISTED IN THE KENYA ASSOCIATION OF MANUFACTURERS (KAM) DIRECTORY:

1. Bidco Oil Refineries Ltd
2. Giloil Company Ltd
3. Kapa Oil Refineries Ltd
4. Menengai Oil Refineries Ltd
5. Palmac Oil Refineries Ltd
6. Pwani Oil Products Ltd
7. Arkay industries Ltd
8. Diamond Industries Ltd